



Interim Report on Fuel Price Study

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Objectives

- To investigate alternative policy options to the price cap as enacted in Hawaii.
- To research the resources that would be required for Hawaii state government to carry out tasks described in Act 77.





Presentation Divided in Two Sections

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- A review of gasoline pricing and other policies in other jurisdictions.
- An analysis of resources and staffing that would be required for the new State Petroleum Commissioner within DBEDT to carry out the requirements of Act 77.



Method: Policy Alternatives

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- Worked with DBEDT and Stillwater Associates to become familiar with Hawaii fuel price situation and policy history.
- Interviewed industry, private sector and others for background on policies in other jurisdictions
- Identified policies in numerous jurisdictions (both in and out of U.S.).
- Researched these policies through interviews, questionnaires.





Method: Policy Alternatives Jurisdictions Examined

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- California
- Prince Edward Island
- Newfoundland/
Labrador
- Pacific Island Forum
(Fiji)
- Delaware
- Tennessee
- Indiana
- Other states

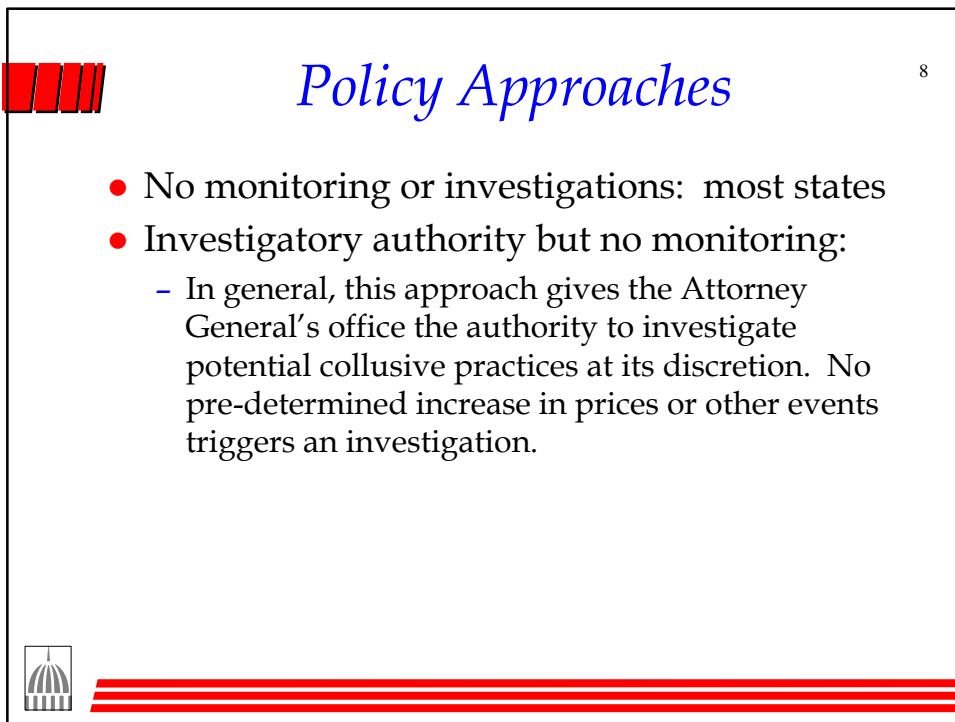
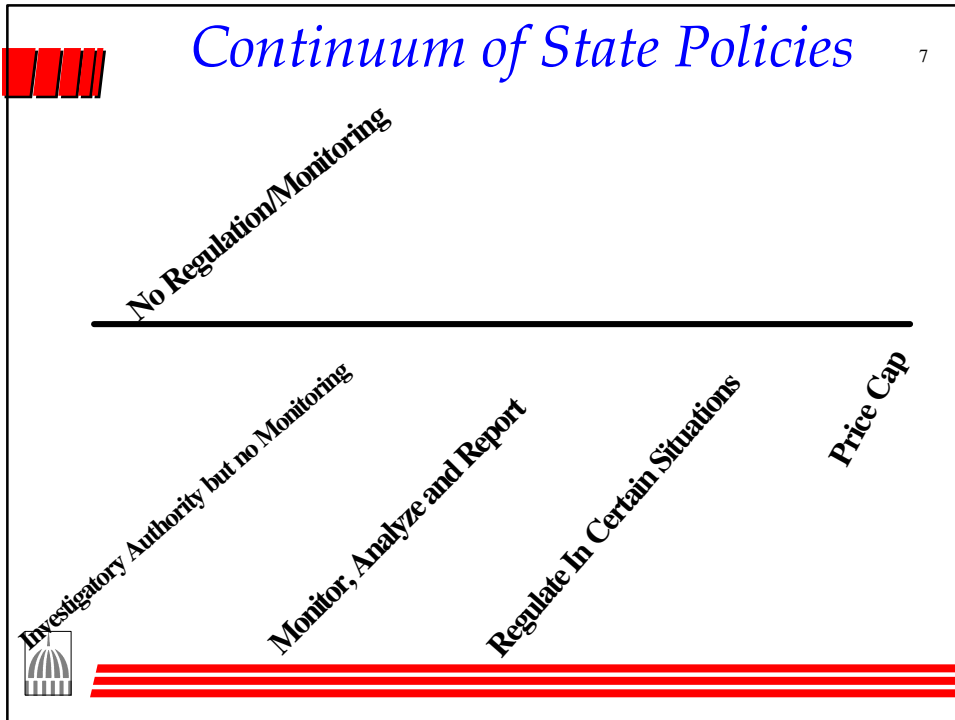


Pacific Island Forum Members

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- Australia
- Cook Islands
- Federated
States of
Micronesia
- Fiji
- Kiribati
- Nauru
- New Zealand
- Niue
- Palau
- Papua New
Guinea
- Republic of the
Marshall Islands
- Samoa
- Solomon
Islands
- Tonga
- Tuvalu
- Vanuatu





The diagram shows a list of policy approaches. At the top left, a red graphic of five vertical bars of increasing height is next to the title "Policy Approaches" in blue italicized font. The list contains three items: "No monitoring or investigations: most states", "Investigatory authority but no monitoring:" followed by a bullet point "In general, this approach gives the Attorney General's office the authority to investigate potential collusive practices at its discretion. No pre-determined increase in prices or other events triggers an investigation.", and "Regulate In Certain Situations". A red graphic of five horizontal bars of increasing length is at the bottom left, next to a small icon of a state capitol dome. The number "8" is in the top right corner.

Policy Approaches

- No monitoring or investigations: most states
- Investigatory authority but no monitoring:
 - In general, this approach gives the Attorney General's office the authority to investigate potential collusive practices at its discretion. No pre-determined increase in prices or other events triggers an investigation.
- Regulate In Certain Situations



Policy Approaches

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- Monitor, Analyze and Report:
 - In general this approach involves data collection, analysis and reporting of wholesale and retail prices. It is designed for market transparency and for potential government planning and oversight.
 - » California follows this approach
 - » A network of Pacific Islands follows this approach



California

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- California's monitoring, analysis and reporting has multiple audiences:
 - The public (for market transparency)
 - The legislature and governor (to alert on policy issues of concern)
 - The CEC itself (to see if action is required to remedy scarcity situations)
- CEC will forward concerns about illegal practices to the Attorney General.



California

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- The goal of CA's price monitoring is to ensure the state has a "thorough understanding of the operations of the petroleum industry...to enable it to respond to shortages, oversupplies and to assess whether all consumers, including emergency service agencies, [government] and agricultural and business consumers... have adequate and economic supplies of fuel. (CA SB 1962, 2000)



Pacific Islands

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- Goal of the monitoring activities is price and market transparency in order to:
 - understand how regional fuel prices are changing
 - increase awareness of prices in neighboring islands
 - highlight potential price discrepancies (due to oil company abuse or otherwise) that may impact industry development (tourism, fishing).





Regulate In Certain Situations ¹³

- 'Zone pricing' occurs when gasoline refiners or wholesalers charge different wholesale prices throughout a city or state.
 - Oil companies claim it is necessary for competition, but some policymakers see it as anti-competitive.
 - No state has prohibited zone pricing
 - Connecticut and New York have recently considered bills to monitor, regulate or prohibit the practice
 - A Maryland report found no illegal practices but encouraged closer monitoring of the market
 - An FTC study of Western states found no illegal practices



Regulate in Certain Situations ¹⁴

- 'Price gouging' is the opportunistic raising of prices during emergencies or shortages
 - Indiana statute prohibits gasoline price gouging during declared emergencies
 - Maryland considered a bill in 2002 that would have prohibited dealers from raising the price of motor fuel sold at gas stations during states of emergency declared by Governor





Regulate in Certain Situations

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- Predatory pricing refers to reducing prices, sometimes below wholesale
- Laws to prevent oil companies from selling below cost to drive out competition: Massachusetts, Maryland, New Jersey, Georgia, Minnesota, Florida, Maine, Pennsylvania, Tennessee, Wisconsin, Missouri, Colorado and Utah.



Regulation of Refiner/Retailer Relationship

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- Regulating relationship between refiner (oil company) and retailer
 - Divorcement: Oil companies may not own or directly operate gas stations
 - Lease-rent Caps: Limits on rent for gas stations
 - Other policies





Refiner/Retailer: Divorcement ¹⁷

- Laws prohibiting or limits gasoline companies/ refiners from owning or directly operating gasoline stations: Connecticut, Maryland, District of Columbia, Puerto Rico, Hawaii
- Nevada: Restriction on number of service stations directly operated by a refiner.
- Virginia: Minimum distance of one and one-half miles between a refiner-operated service station and one operated by a franchised dealer.



Refiner/Retailer: Other Policies ¹⁸

- Laws prohibiting oil company from dictating hours of operation for service stations: Oregon, District of Columbia, Georgia, Maryland
- Oil companies prohibited from requiring gas station operators to charge a certain price or to participate in promotional offers: Maryland, Georgia
- Puerto Rico and Delaware prohibit oil companies from discriminating among stations they supply





Price Caps

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- Price caps have been legislated in:
 - Prince Edward Island, Canada
 - Newfoundland/Labrador, Canada
 - Hawaii
- Also, similar regulatory policy used in Fiji, Tonga, Solomon Islands, Samoa, Cook Islands, Niue and American Samoa.



Price Caps

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- Newfoundland/Labrador
 - Petroleum Products Pricing Commission (PPPC)
 - » Continuously identifies, compiles information
 - Bulk storage, distribution systems, location and sizes of marine operations.
 - Ongoing fact finding tours to enable commissioners to meet with retailers, distributors and consumers regarding petroleum pricing issues.
 - Ensure security of supply to remote areas and factors affecting pricing to remote areas.
 - Education role





Newfoundland/Labrador

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- PPC has mandate to:
 - establish and monitor max. retail and wholesale fuel prices
 - » gasoline, home heating fuel, diesel and propane
 - work with all stakeholders to ensure fairness in marketing petroleum
 - meet to inform and educate stakeholders



Newfoundland/Labrador

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- Factors considered in setting provincial prices
 - Prices determined by world oil prices
 - » high and low world prices averaged daily
 - marketing component which includes:
 - » transportation and distribution costs;
 - » capital investment and infrastructure;
 - » volume of sales in rural and urban areas;
 - » seasonal adjustments;
 - » special circumstances: isolated communities, places where prices are seasonally frozen.





Policy Approaches

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- Considerations:
 - The cost and effectiveness of a price cap and the enforcement mechanisms necessary to implement it.
 - Consider other means that might reduce barriers to market entry and increase competition in retail gasoline markets in Hawaii.
 - » Market transparency
 - » Barriers to entry



Method: State Government Resources

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- Interviewed and surveyed jurisdictions with roughly similar functions (CA, PEI, NFL, Pacific Islands)
 - Monitoring
 - Reporting
 - Auditing and Investigations
- Spoke to Federal Energy Regulatory Commission official who is initiating similar effort for gas and electricity.





Budget: California example

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- California only monitors and reports on fuel prices.
 - The Transportation Fuel Supply and Demand Office, within the energy office, has 19 people.
 - Background ranges from 3 to 25+ years with the CEC.
 - Education ranges as high as Ph.D in engineering, economics, geography, computer science.



Budget: California example

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- California budget (annually):
 - Personnel: approximate \$1,000,000 + benefits
 - Contractual: \$100,415
 - Discretionary Operating: \$31,665
 - Student Assistant: \$25,000





Pacific Island Forum Budget and Staff

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- **Monitors and reports** gasoline and diesel prices, through newsletters. No extensive analysis as required in Act 77.
- Two full time staff + support staff
 - Director has an MBA and 25 years of industry experience.
 - Research assistant is relatively recent college graduate.
- Budget: \$65,000 + benefits for 2 staff and \$50,000 for other expenses.



Newfoundland/Labrador

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- Funding: Effective January 2001, Commission is funded through petroleum wholesalers.
 - A quarterly assessment fee per liter.
 - » \$.0004 cent per liter fuel tax, increasing to \$.0007 per liter.
 - » Fee based on volume of products sold in previous year.
 - » Commissioner can adjust or vary rate of assessment.
- Total budget \$400,000 - \$500,000 Canadian
- 6 FTE & one half-time consultant





Hawaii: Act 77

Study Requirements

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- Gather, analyze, interpret:
 - Nature, cause, extent of petroleum product shortages.
 - Economic, environmental impact of shortages.
 - Industry forecasting methodology of petroleum product demand and supply.
 - Prices and changes in prices at wholesale and retail.



Hawaii: Act 77

Study Requirements

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- Income, expenses, profits before and after taxes, of oil industry and firms within it. Compare data with other major industry groups.
- Emerging trends in supply, demand and conservation of petroleum.
- Nature, extent of efforts to expand refinery capacity and acquire more supply.
- Develop a petroleum and petroleum products information system.





Hawaii: Audit requirements

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- Conduct random audits and inspections to determine if they are:
 - withholding supplies from market
 - violating applicable policies, laws or rules
- Submit an annual report detailing:
 - study conclusions
 - civil penalties imposed
 - referral of violations to the attorney general



State Government Resources

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- Two types of resources will be required to fulfill functions of Act 77:
 - Full time, Dedicated, Technical, Administrative and Supervisory staff and
 - Consultant Resources
- Full time staff will perform most functions and identify major issues or concerns. They will call in consultants as needed.



Hawaii: Staffing and Resources ³³

- Two major functions and options.
 - Option 1. Simply monitors and reports prices and market activity (like California or the Pacific Island Forum.) This staffing level falls short of the Act 77 requirements.
 - Option 2. Monitors, reports and also audits. This staffing level will meet requirements of Act 77.



Hawaii: Staffing and Resources ³⁴ *Option #1*

- **Monitor** and **report** on market activity.
 - Staff will be required to have a background in data analysis, petroleum industry economics and research.
 - Function will be able to rely to some extent on other sources of information, such as Platt's, the Energy Information Administration etc.





Hawaii Staffing and Resources Option #1

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- Three full time staff required:
 - » Economist
 - » Research analyst
 - » Secretary
- Based on experience and analysis of California, FERC, Pacific Island Forum



Hawaii: Staffing and Resources Option #1

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- Function will likely require 2 substantive staff plus administrative support. (3 full time staff)
- Function will also require a consulting budget for occasional expert analysis.
- Annual Budget likely:
 - » \$155,000 + benefits for 3 staff
 - » \$75,000 for consultants and other expenses
 - Other expenses include office expenses, subscriptions, printing, electronic data services (Platts, Oil Price Information Service, Lundber report).



Hawaii: Staffing and Resources ³⁷ *Option #2*

- Function that monitors, reports and also **audits**.
 - This function will require considerably more resources, depending on the purpose of the audit.



Staffing for Option #2 ³⁸

- Full time staff skill sets will consist of the following:
 - Petroleum Economics
 - Chemical Engineering
 - Law
 - Finance
 - Auditing
 - Data Analysis
 - Support Staff and Web Support.





Staffing for Option #2

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- Staff required
 - Economist, with background in petroleum economics
 - Chemical engineer
 - Attorney
 - Audit staff (likely two to three audit staff required)
 - Research Analyst
 - Administrative Support
- Estimate 7 staff + Commissioner.



Budget for Full Monitoring and Audit Functions (Option #2)

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- As required by Act 77:
 - Budget is likely to be:
 - \$375,000 + benefits
 - Consulting budget in case of discovery of significant anomalies: \$100,000.
 - Other expenses: \$25,000
 - » Other expenses include such items as office expenses, printing, subscriptions, electronic data services etc.





DBEDT Role

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- The State Energy Resources Coordinator (ERC) serves as the chief State energy advocate, policy developer and planner, and energy advisor to the Governor and other government and private organizations.



DBEDT Role

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- The audit and compliance enforcement function represents a new element and function for DBEDT.
 - Changes to the mission statement and/or authorizing legislation for DBEDT may be required.
 - Do the roles of independent policy advisor and enforcer conflict with one another in any way.

